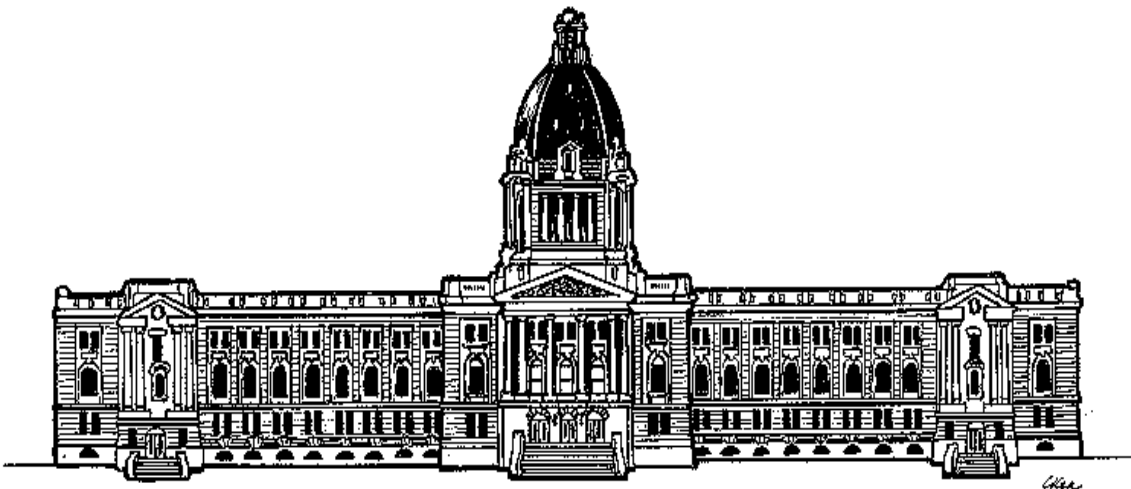




STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

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**STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES
2007**

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Regina Walsh Acres

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Cannington

Hon. Graham Addley
Saskatoon Sutherland

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Weyburn-Big Muddy

Ms. Donna Harpauer
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Hon. Warren McCall
Regina Elphinstone-Centre

Hon. Mark Wartman
Regina Qu'Appelle Valley

[The committee met at 19:00.]

Saskatchewan Government Insurance

The Chair: — Good evening, everyone, and welcome to this session of Crown and Central Agencies. Appearing with the committee this evening from the opposition is Mr. D'Autremont, Mr. Duncan, and Ms. Harpauer. From the government side it's Minister Wartman, Minister McCall, and Minister Addley. And appearing before the committee this evening we have Saskatchewan Government Insurance. The minister responsible is Minister Glenn Hagel, and I'd like to invite you to introduce your officials at this time.

Hon. Mr. Hagel: — I'd be happy to do, Madam Chair. Would you like me to then proceed with an opening summary of the year under review?

The Chair: — I'll ask the minister to introduce his officials, and then I'll introduce the Provincial Auditor's office and come back to you for the opening remarks.

Hon. Mr. Hagel: — I'd be happy to do that. Thank you. First of all I'd like to introduce to my left and your right, the president of SGI [Saskatchewan Government Insurance], Jon Schubert; to my right is the vice-president of claims, Earl Cameron; seated right beside Mr. Schubert is Sherry Wolf, the vice president of the Auto Fund; and seated at the desk behind is Betty Weigel, who is the manager of business affairs and the corporate secretary; and she is joined by Don Thompson, who is the chief financial officer.

The Chair: — Thank you, Minister Hagel. Now I'd like to invite Mr. Andrew Martens from the Provincial Auditor's office to introduce his officials as well.

Mr. Martens: — ... today the deputy provincial auditor responsible for the audit of SGI.

The Chair: — Can I just ask you to repeat that. Unfortunately your microphone wasn't on at the time you were speaking, so if you wouldn't mind doing that again. Thanks.

Mr. Martens: — Thank you, Madam Chair. With me today are Bashar Ahmad, deputy provincial auditor; Rod Grabarczyk, principal; and Jamie Wilson from KPMG.

The Chair: — Thank you very much. Given that the Provincial Auditor's office has already given the report on this issue, we'll now go to the minister for his opening remarks.

Hon. Mr. Hagel: — Thank you very much, Madam Chair. I'm very pleased to say that in 2005 SGI had another strong year with positive results in both the Auto Fund and SGI Canada. And I'd like to speak to those separately. So let me first address the 2005 Auto Fund annual report. Both of those are before us today, Madam Chair.

As you know, one of things that we're proud of in Saskatchewan is the fact that we have the lowest auto insurance rates in all of Canada right here in Saskatchewan. And I'm happy to say that in 2005 SGI continued to offer these low rates

and also had a very strong year financially. The Auto Fund posted a \$61 million surplus in 2005, resulting in a \$163 million balance in the rate stabilization reserve.

Now Madam Chair, the Auto Fund acts as a trust fund for Saskatchewan motorists and operates on a self-sustaining basis over time. That's the way it's structured. A positive balance in the reserve means rate stability for motorists because insurance is a volatile industry, and one year it can be very different from the next.

However 2005 was a very good year. And as you may remember, Madam Chair, SGI was in such a positive financial position in 2005 that we were able to provide almost \$45 million in rebate to our customers in the next year, in the calendar year 2006.

SGI also provided its customers with many new and innovative programs in 2005, and I'd like to list them. These are just programs that were introduced in 2005 in addition to what previously existed.

What was introduced was a doubling of the discounts under the safe driver recognition program to 20 per cent for safe drivers in Saskatchewan, maximum. We also had a doubling of the discounts under the business recognition program to 10 per cent. In addition to that, we introduced a graduated driver's licensing program for new drivers.

We increased income benefits to customers seriously injured prior to 1995. And we also launched the auto eClaim service which allows customers to file a claim and book an appraisal online, and as it's been in place for now nearly a couple of years, there'll be lots of Saskatchewan people who will have already have appreciated the added convenience of that.

The Auto Fund did very well in 2005, which of course in the bottom line means it's good news for Saskatchewan motorists.

Now let me turn my attention to 2005 SGI CANADA annual report. And much like the auto fund, 2005 was also a very good year for SGI CANADA, I'm very pleased to say. SGI CANADA posted its second best year on record in 2005 with a profit of \$35 million.

SGI CANADA also had a record underwriting profit in 2005 despite record storms in Saskatchewan. So how does that happen? Well even though 85 per cent of SGI CANADA's premium is written in Saskatchewan, literally 45 per cent of the underwriting profit came from outside the province — so 85 per cent of the premium from within Saskatchewan but 45 per cent of the profit from our business dealings outside of Saskatchewan.

And this demonstrates exactly why expansion is critical to SGI CANADA's long-term viability. The expansion spreads the risk geographically, and in insurance that's a very important principle, to spread the risk. And it spreads it not only geographically but across product lines which is so important in a year such as 2005 when Saskatchewan suffered severe weather here in our province. Expanding means greater financial stability for the company, and that's good news for our

Saskatchewan customers and shareholders, which of course are the people of Saskatchewan.

In 2005, SGI CANADA had operations in Manitoba, Ontario, and the Maritimes, in addition to our home province. And I'm happy to say that each — each — of SGI CANADA's out-of-province operations were profitable in 2005 and continued to spread the geographic risk, earn profits, and create jobs here at home.

So as I said, Madam Chair, 2005 was a good year for SGI. It was a good year for the Auto Fund, it was a good year for SGI CANADA, and I would summarize that it was a good year for Saskatchewan people who are the owners as a proud member of the team of Crown corporations that serve Saskatchewan. SGI serves it well, I'm proud to say, and very pleased to report that in 2005 it also served it profitably.

So we would be happy to answer questions to the committee, Madam Chair.

The Chair: — Thank you, Mr. Minister. Are there any questions arising out of the minister's opening remarks? Mr. D'Autremont.

Mr. D'Autremont: — I may have some.

The Chair: — Okay.

Mr. D'Autremont: — Thank you, Mr. Minister and officials, for being here this evening. We look forward to your responses to our questions.

I would like to start with a question related to the responses from the last time you were before us and you provided me with a series of answers, nine different answers. And I'd like to deal with answer no. 7 which was dealing with the transportation of students by vehicles that are not commercial vehicles but that may be receiving compensation. And your response says, unlike the volunteer driver situation where limited compensation is accepted, there is no limits on the amount of compensation allowed to be paid to the registered owners for the transport of students, therefore transportation of students is usually a profit-making venture.

Well it sounds to me like it's a commercial operation. That being the case, are these vehicles licensed commercially and do they have to meet the regulations that any other commercial carrier would have for transporting passengers?

Mr. Schubert: — These are not commercial vehicles. They are in the light vehicle class. And the reason for structuring the rules such as that it's mostly for smaller places where it's unlikely that it's viable to have a commercial vehicle, a bus, and so the LV [light vehicle] regulations were made such that students could be transported in those types of vehicle and that there could be some compensation paid for that.

Mr. D'Autremont: — Oh perhaps my mike is working. Okay, I guess my light isn't working.

While some of this may be occurring in smaller places, the information I have is that it occurs in large part in the larger

cities where commercial vehicles would be available for hire.

What kind of regulations or rules are circumvented if this transportation of students is being carried out for hire in private passenger vehicles rather than in commercial vehicles where drivers would have to pass more stringent tests, where perhaps the vehicles need to be inspected more often, those kind of issues?

Ms. Wolf: — If I may, the intent of these, use of these vehicles is in a limited circumstances where it isn't economically viable to use a school bus. So it is avoiding the regulations and rules around the school buses. So you're right in that there are reduced requirements, both in the driver licensing and vehicle inspection requirements. But the intent is to keep the, to balance between the economic needs of the school system and yet at the same time ensure safety of the schoolchildren.

Mr. D'Autremont: — If the students being transported though, the drivers and the vehicles don't have to meet the same regulations that a commercial vehicle would require even though they're being compensated as if they were commercial operations, how can SGI or the school divisions ensure that proper compliance and proper qualifications of both the drivers and the vehicles are being met?

Ms. Wolf: — These are situations where the school boards have contracts in place, so I believe there are standards set by the school divisions to ensure they . . . some levels of safety and experience required for those drivers, but those are not set by SGI.

Mr. D'Autremont: — Nevertheless, SGI sets the rules, the qualifications, the regulations for commercial vehicles doing the same thing — transporting students.

Ms. Wolf: — Yes, that's right. This again is, though, for a very limited scope and it's our understanding that it is a fairly limited scope unless there is other information that we're not aware of.

Mr. D'Autremont: — Well my first employment in Regina occurred more than 35 years ago and at that time I was aware that students were being transported by taxi because my cousin at the time was working for a taxi company and transporting students. So this is not a new thing.

What's new about it now though is that the schools can employ private citizens and their vehicles to transport the students with perhaps proper regulation and proper qualification in place, proper inspection of vehicles. But SGI as the licensing and regulator of motor vehicles — if the school board is doing it — is not aware whether or not proper drivers' qualifications, proper vehicle standards are being maintained. This is being left up to the school boards in whatever manner they choose.

So who becomes liable in the case of an accident? Is SGI liable when this person is operating in a commercial enterprise, even though it's not licensed as a commercial vehicle? Do they meet the AAIA [The Automobile Accident Insurance Act] requirements, or does the school board take on any liability both for damage and for personal injury?

Ms. Wolf: — They are legal to do what they are doing. So in

terms of within our understanding of the circumstances, if we're speaking of the same, they are operating legally doing what they can do within the current regulations.

Mr. D'Autremont: — So their licence, their private passenger vehicle licence, with I believe it's what, \$500,000 liability . . . 2 million? 200,000 would be the maximum coverage that they would have. The fact that they are charging for this operation, you're saying, meets the legal requirement because they are transporting for a school division. To me that seems to be a fairly low liability standard.

Mr. Schubert: — The 200,000 is the minimum that they would have under plate insurance. Many vehicle owners purchase additional liability insurance.

Mr. Cameron: — To clarify a bit more, the school division would have a coverage called non-owned auto coverage which would protect the school division with whatever liability they had purchased — likely 5 million, maybe even more. Also under our no-fault provisions, their benefits for anyone injured would . . . they would receive those regardless of liability.

Mr. D'Autremont: — What are the legal ramifications? Is there any additional qualifications needed by the driver other than a personal or a private licence to be able to transport children?

Ms. Wolf: — SGI doesn't require anything beyond a class 5 for these circumstances. But what we are aware is that most school boards do require criminal record checks for these situations as well. Some of the school boards are asking for periodic vehicle inspections of the vehicles as well as extension insurance. So it's the school boards who are doing some due diligence with respect to these contracts.

Mr. D'Autremont: — How would this differ then from commercial operations, a taxi company, a limousine service that might be providing transport for students to and from school? What kind of requirements would be needed for those drivers and vehicles versus the use of a private passenger vehicle with a privately licensed driver hired by the school board?

Ms. Wolf: — A taxi operation, a driver would be required to have a class 4 driver's licence. They're also required to have different licence plate. In addition municipalities, depending on which one they are involved with, will have their own inspection programs. So there is a difference between these situations.

But again the class 4 licence allows you . . . allows the driver to transport passengers much beyond the limited scope that the school divisions are being used.

Mr. D'Autremont: — The taxi or limousine service could transport a certain number of passengers any place they wanted to go, but someone who is transporting for the school division would virtually have that same unlimited ability. If, let's say, the volleyball team is going from Regina to Saskatoon and they got a private van with a PV [private vehicle] plate on it, with just a private licensed driver to make that run, there would be no difference than getting a limousine service or someone like that to transport them.

So I don't know that there would be any limiting factors based on the limited knowledge that's being talked about, on where or where they could not go.

Ms. Wolf: — I think you're correct in the sense that they both could transport passengers. It's the scope and the volume in which this transportation would take place. A taxi would be every day. I think a van or transportation to a school would be less frequent.

Mr. D'Autremont: — Well it's my understanding that the transport of some of these students is a daily occurrence — to and from school every day, five days a week, when the school is open. It's a regular run. It's not a happenstance that the bus broke down today so three parents picked the kids up. This is a regular daily occurrence.

And I don't understand the difference between that kind of an operation carried out by an individual driver with a PV plate and a commercial operation. One meets different requirements. One has a different licensing requirement. One pays a different fee than the other does, and yet they're competing to do the same job.

Ms. Wolf: — I think the difference that occurs with this situation and taxis or school buses is that I'm aware of circumstances where kids are transported to and from, say, French immersion, so that would be once a day and perhaps picked up at the end of the day. So unlike a taxi where they would be transporting passengers all day or through the evening, it's only a once or twice a day occurrence. So again the volume of business that is taking place is much less. This was a circumstance where the school boards wanted assistance in having an economical situation for them to transport pupils. It seemed to make sense.

Mr. D'Autremont: — Well I can understand in the case of the volunteer driver that it's going to. as an example, bring the students into the legislature for their once-a-year trip. It happens once a year. But when it's happening on a daily basis, twice a day, to me that seems to be a commercial operation.

If I was hauling heavy goods down the road and charging commercially for that, and if I did it every day, I'm sure SGI at some point in time would come up to me and say, you need a commercial licence. You need a driver's licence suitable or appropriate to the type of vehicle you're using for that commercial operation. I couldn't argue with SGI and succeed I'm sure, that well I'm doing this for economic reasons because it's cheaper for the entity that I'm doing it for. SGI would not accept that as a valid argument, I believe, and perhaps you can correct me on that. Perhaps SGI would accept that as a valid argument.

But it seems to me that the school boards are arguing to allow for commercial operations and not want to pay the commercial rates, not want the drivers and the vehicles to be licensed commercially, to be tested for a commercial driver's licence, for a class 4 licence, to have the inspections necessary for the vehicles. And I don't understand why it is that SGI is allowing one commercial operation to operate in a different set of rules than every other commercial operation in the province.

Hon. Mr. Hagel: — Madam Chair, as has been explained earlier, this is a circumstance that has been put in place primarily with the intention of assisting the provision of necessary transportation in the rural areas where I think the hon. member will recognize the kinds of commercial circumstances that he refers to are rare if not non-existent. And that is the origins of the approval of this way of proceeding.

Having said that, the SGI policy is to not differentiate on the basis of population or other category as to where this could or could not be used. It's intended to assist in the need for schools to have reliable transportation that's used in a very limited way. As has been said, limited in the context of not continuous throughout the day but during those specific times for which plans are made in a predictable way for delivering students to or from schools. And so that's the origins and the genesis of the policy and that's how it exists to serve schools today.

Mr. D'Autremont: — Well, Mr. Minister, it may have started out with good intentions to providing a service that was needed in rural Saskatchewan for the rare occasion. But the information I've received is that, while it may still be the rare occasion in rural Saskatchewan, it's become an everyday event in the two major cities at least, if not the four major cities.

There are people who do this basically for a living — transporting students to and from school — using their own personal vehicles with class 5 driver's licenses and they're running commercial operations and don't need to meet the regulations that any other commercial transport of passengers would have to do. So I find that to be an abuse of the privilege that SGI has provided to them and I'm surprised that SGI isn't interested in looking into it and ensuring that this is a rare occurrence rather than a common everyday event.

Hon. Mr. Hagel: — Well, Madam Chair, let me say in response to the hon. member that . . . a couple of things. First of all it's clearly understood what the intent is and I don't think the hon. member takes any . . . I haven't heard him take any issue with the intention. And so that's clear.

SGI is not aware of people who are doing this to make a living and this is a . . . this is certainly not a common matter that has come to the attention of SGI. I'll commit to the member, I appreciate the member bringing the matter to the attention of SGI in here in committee, and I will ask that SGI will review the practice and do the necessary consultations with the parties with vested interest and then assess that and move forward from there.

Mr. D'Autremont: — Okay. Thank you, Mr. Minister. And I'd appreciate some kind of response after you've had the opportunity to review it, to make a determination as to how widespread this issue is.

Hon. Mr. Hagel: — The response as per usual practice will be to the committee and the member. I certainly make a commitment on that behalf.

Mr. D'Autremont: — Okay, thank you very much. I'd like to move on to another issue. The minister was very . . . gushed forth very much in dealing with the rate stabilization fund, and the monies that were collected into that fund, and surplus in that

area. I know that the government has made a determination as to the proper levels for maintaining the rate stabilization fund for the year 2005, which is the annual report we're reviewing.

At that point in time what was considered to be the appropriate level for the rate stabilization fund?

Mr. Schubert: — In 2005 we had a different target than we did in 2006. It was \$90 million. It was based on the net unearned premiums for the Auto Fund and the catastrophic injury that we thought that we needed to have to protect our customers from a rate shock. We adopted the minimum capital test ratios in 2006.

Mr. D'Autremont: — Okay, thank you. So you set a target of 90 million. I believe at the end of 2004 the restated numbers are, the rate stabilization reserve was at 136 million. You paid out from that a rebate, I believe, of 44 or 45 million. I think in the book it says 45 million, but in some of the news reports and news releases I saw it was 44 million, so between those two numbers.

That would take it down to just over the 90 million if nothing changed during that year. But obviously SGI is still selling licences. The rates didn't change, I don't believe, in 2005 from 2004, so you should have had an expectation of a significant increase again in 2005, which is what happened. The fund grew to 163 million, even though you had, I believe, at that point in time taken the \$44 million off of that. And you can correct me if I've got that wrong. But so there's still a significant increase there. Why wasn't that calculated in to the rebate initially?

Mr. Schubert: — We did a couple of things in 2005 in order to address the balance in the rate stabilization reserve. We doubled the maximum safe driver discount, which resulted in a significant increase in the discounts we pay to customers. We also increased the injury benefits for people that were very badly injured prior to no-fault, so part of that had to draw on the balance in the rate stabilization reserve.

The difficulty with this is that insurance is a bit backwards from other businesses in that we charge a premium today and we really don't know what the costs of that are going to be for a long time. So we're always trying to project it. We never get it exactly right.

We've had a large dollar amount of reserves released from the injury program. As it's matured we have gained more experience. And what's occurred is that we've had some significant surpluses in the Auto Fund in the last few years. And what we've done with it is first of all built up the rate stabilization reserve to an adequate balance — in fact more than adequate — which is the reason for the rebate which actually was paid out in 2006, not in 2005. So we used it, double discounts, to make rebates and to increase the injury benefits. But we'll never get it exactly right because we always set a premium on anticipated claims and we don't know what those are going to be.

Mr. D'Autremont: — The \$163 million in the rate stabilization reserve at the end of 2005 included the \$44 million of rebate that had not yet been paid out?

Mr. Schubert: — Right. That's before the rebate because we

paid that in 2006.

Mr. D'Autremont: — Okay. Thank you. The redevelopment reserve, what was that for?

Mr. Schubert: — The Auto Fund has a computer system that we use to keep track of drivers' licences and vehicle registrations. And that system was built, parts of it were built in the 1960s. And so it's near the end of its useful life and we need to replace that system. It's a significant cost that we've estimated to be \$35 million that we'll spend over a five-year period. We thought it was appropriate to set aside an amount for that because it was such a significant amount.

Mr. D'Autremont: — And so that was taken out of that one year's net returns?

Mr. Schubert: — It's just an appropriation of the equity in the Auto Fund. So we've just earmarked that amount of funds specifically for the redevelopment project.

Mr. D'Autremont: — So the \$35 million allocated to the redevelopment fund was retained by SGI on the books as a separate line item. Was the money used then for some other purpose such as investments or did cash remain located in some position?

Mr. Schubert: — It hasn't all been spent. It's going to be spent over a five-year period as we do the project. So all we've said is, of the amount that's available in equity, we've set that aside specifically for redevelopment of the system. Now that 35 million remains, or part of it remains, within the investment pool of the Auto Fund which totalled just over \$1 billion at the end of 2005. And as we spend money to redevelop the system, that draws down on both the appropriation in equity and also the investment pool.

Mr. D'Autremont: — So it lowers the investment pool as well as lowering the redevelopment reserve?

Mr. Schubert: — Yes.

Mr. D'Autremont: — So where do you show a positive increase? Do you show that in assets or . . .

Mr. Schubert: — As we spend the money, it flows through as expenses, as administrative expenses in the year that it is spent, okay, so that reduces the surplus for any particular year. Okay. So it comes out of the . . . [inaudible interjection] . . . I know, we should all be accountants. It comes out of the redevelopment reserve. It's charged as an expense to administration and therefore reduces the surplus for a particular year.

Mr. D'Autremont: — So it's being shown here on page 43 of the annual report as equity.

Mr. Schubert: — Yes.

Mr. D'Autremont: — Okay. So then you're going to draw down the equity of the company to pay for the new computer system, etc.?

Mr. Schubert: — Right.

Mr. D'Autremont: — And it will be shown as an expense at that time?

Mr. Schubert: — Yes.

Mr. D'Autremont: — And so is it also . . . is those funds then also shown in the investment portfolio?

Mr. Schubert: — Not separately. It's just that we haven't spent the money, so it's part of the \$ 1 billion investment portfolio.

Mr. D'Autremont: — Okay. It's shown then as part of the investment portfolio and as part of the equity, so it's counted twice?

Mr. Schubert: — No, no.

Mr. D'Autremont: — I think maybe we need to turn to the accountants to explain this to me. Either the Provincial Auditor's office or Mr. Wilson would like to take a shot at it.

Mr. Ahmad: — Madam Chair, if I may, this is appropriation. After arriving at the total profit for the year or net income, they have earmarked a certain amount for redevelopment. So the money has not been spent yet. When it will be spent, it will be taken through the expenses into the assets. And so you will have . . . Assets will go up and your equity will go down.

Mr. D'Autremont: — Okay. So as it's spent . . . To the Provincial Auditor's office. As the money is spent, it's drawn down out of the equity and transferred into assets. But the investments are already being shown as part of the assets. So if the money is, the \$35 million is already being shown as part of the investments, it's also being shown as part of the equity, and you transfer money from the equity when it's spent for the computer system and it becomes assets, are those assets not being counted twice?

Mr. Ahmad: — Madam Chair, they won't be. And the reason for that is you are really reallocating your investment into an investment portfolio and some of that becomes your capital asset.

A Member: — Do you want me to explain, Dan?

Mr. D'Autremont: — You and me may be on the same page on this. Well it seems to me that it's being, someplace in here, if it's part of the investment package and it's recorded in here on page 43 under assets . . . And maybe that's the question. Is it shown as part of the investments?

Mr. Schubert: — We have money coming in at the moment from our customers and we accumulate it in various assets when it arrives. We use it to pay out claims liabilities, okay. The difference between the liabilities and the assets, the total equity in the Auto Fund, is \$198 million. So we have at the end of 2005, 198 million more in assets than we do in liabilities.

All we've done is taken a part of that 198 million and said, that part is specifically set aside to replace the computer system. As we spend the money, the money comes out of our bank account in order to pay for the development of the system. So that reduces investments; it increases the capital asset for the

computer. So we're moving it on the asset side from investments to capital equipment, and at the same time we're drawing down the redevelopment reserve.

Mr. D'Autremont: — I still haven't followed the money. Okay, you've got \$1.003 billion in investments under assets. Is the \$35 million part of that number?

Mr. Schubert: — Yes.

Mr. D'Autremont: — So that gives you total assets of 1.23 billion, correct?

Mr. Schubert: — Yes.

Mr. D'Autremont: — Offsetting that, you have liabilities of 1.015 billion. You have equity of 198 million which includes the \$35 million in equity for the redevelopment reserve.

So you've counted the \$35 million in assets and yet you're counting that \$35 million as a liability against . . .

Mr. Schubert: — We're not counting it as a liability. It's just set aside from equity. Another way to look at it, if we weren't redeveloping the system the balance in the rate stabilization reserve would be \$198 million. So we've taken it out of the rate stabilization reserve because it's not available for a cushion for our customers. Okay, and we've said that we know we're going to spend this money; we need to specifically set that aside for the redevelopment of the computer system.

Mr. D'Autremont: — I think I followed it. Okay.

Hon. Mr. Hagel: — You just might want to trust the auditors.

Mr. D'Autremont: — Sometimes auditors need to explain it though, so that you can understand it. Okay. A few years ago — I think it was in 2004, and it may have been 2003 — the deductible was changed on SGI from \$500 to \$700 for the standard package, the standard policy.

Mr. Schubert: — 1998.

Mr. D'Autremont: — My memory is . . . I'm just wondering, what difference did that make in the amount of money generated by SGI?

Mr. Schubert: — We estimate that that would have been a saving of about \$10 million.

Mr. D'Autremont: — Okay, thank you. In the provisions for unpaid claims, in 2004 you had a net unpaid claims of 685 million; in 2005, \$730 million. I'm wondering how you arrive at those numbers. Particularly what I'm interested in is how you adjust that annually based on any change in costs, rate of inflation, and commitments that you have to those who have personal injuries and based on their long-term prognosis.

So how do you make that adjustment on an annual basis? Is the increase here of \$45 million in 2004 dollars so that it's actually an increase of \$45 million? Or is it adjusted for inflation so that it's not actually — it's still 45 million real dollars but on a percentage basis it hasn't grown to the extent you would think?

Mr. Schubert: — It's a rather complicated calculation. But essentially it grows every year because we have another year of people who are injured and the no-fault program pays people benefits for their lifetime. And so we set aside that amount in this year's financial statements.

So the change in the provision for unpaid claims is an accumulation of our latest outlook for people who were injured prior to the beginning of the year, plus what we estimate the cost will be of the benefits that injured people — people who were injured in 2005 — will receive over their lifetime.

And what the actuaries do is look at the experience and they look at the number of the people that are injured and make the calculation of how long those benefits are going to be paid out. Because those benefits are indexed to inflation, they have to gross up the amount of the benefit to what the future amount will be paid out. And then because of the time value of money, because we have that money sitting in our investment pool, it's discounted back to today's dollars. So it's a rather lengthy calculation but in essence it continues to grow and has for a number of years because we have another year of people injured whose benefits will be paid over their lifetime.

Mr. D'Autremont: — So when an injury occurs and you project that injury will . . . the claim will remain for 10 years, let's say. When you calculate that, you calculate all 10 years in, to determine what the reserve is, including the inflation rate, the calculated expected inflation rate? That's all built into the initial assessment as to what that unpaid claim will be, or is it adjusted on an annual basis as that year occurs?

Mr. Schubert: — We make the initial calculation exactly as you said it and look at every year's claims experience in each subsequent year to revise the estimate.

Mr. D'Autremont: — So it's adjusted. You make the initial assessment for — in my case the 10 years that I described — and then you would still make a further adjustment on an annual basis to it depending on the rate of inflation, etc.?

Mr. Schubert: — Exactly right.

Mr. D'Autremont: — Okay. In the next part of that note on unpaid claims, the unpaid claims go, in 2004 for injury accident benefits, from 530 million to 566 million. Does that reflect an increase in a change in the number of accident victims that are collecting that compared to those that would have ceased to collect the injury benefits, or is that in large part an adjustment for inflation?

Mr. Schubert: — The amounts on that schedule represent the cost for all of the entry years combined, broken down by accident benefits, any injury liability, and damage claims.

Mr. D'Autremont: — Okay. What I was wondering though was the change from 530 to 566. Was that inflation-adjusted, or was there more accidents occurred than there were people who ceased to have claims against SGI for personal injuries?

Mr. Schubert: — It's a combination of things. It's another loss here, but it also includes the adjustment that we made in order to retroactively increase the benefits for people who were

injured prior to no-fault, and that was \$21 million.

Mr. D'Autremont: — Okay. Thank you very much. The injury liability, how does that differ from injury accident benefits?

Mr. Schubert: — Injury accident benefits are the no-fault benefits. The injury liability is a combination of any liability claims for injuries for benefits in excess of no-fault plus property damage, but a great big portion of this will be for accidents where our customer is responsible for it in another jurisdiction and is being sued.

Mr. D'Autremont: — This would be almost like third party liability that SGI is the third party carrier on it?

Mr. Schubert: — Exactly.

Mr. D'Autremont: — Okay. The number of people that are involved in injuries, what's the average number per year, or how many clients does this represent — the \$566 million?

Mr. Schubert: — The 6,000 in Saskatchewan.

Mr. D'Autremont: — How many of these would be long-term injuries that are going to be on SGI in all likelihood, barring medical miracles, for the remainder of their life?

Mr. Schubert: — I don't have an exact figure, but — and it depends how you define injury severity — but the very bad injuries, there's between, we believe, about 75 to 100 a year.

Mr. D'Autremont: — So in the 10 years then of no-fault being in place, you would have approximately 750 to 1,000 people that would be severely injured still on no-fault. Or how is that adjusted?

Mr. Schubert: — Yes. I don't have the exact number, but it would be in that range.

Mr. D'Autremont: — Okay. Thank you. One of the issues — and as you're aware, my son is a client of no-fault, severe injuries — one of the provisions that changed, and when the SGI no-fault changed a number of years ago from the original 1995, was that clients may have to sue third parties. How many of the SGI long-term injury clients have had to do that?

Mr. Schubert: — We don't have that number here, but it certainly wouldn't be all of them because not all of them would have somebody to sue. We have long-term clients that are injured and there is no . . . You hit a deer or some, you know, single-vehicle accident where there is nobody to sue, but of course badly injured, and those are part of our group of clients that have long-term injuries.

Mr. D'Autremont: — I wonder if you could get a percentage for me of those that would be in the position where they have to sue a third party for recovery of costs of damages.

Mr. Schubert: — Well you know, again we can provide the exact numbers. If my memory serves me correctly, there would be about 200 to 250 people a year that have economic losses in excess of the no-fault benefits and are able to find somebody to sue. So it's a relatively small percentage of the total number of

people that are injured, and a very small percentage of the total customer base we have.

Mr. D'Autremont: — So it would only be those then that have an income loss greater than what SGI would compensate them for, which is I believe at the average industrial rate somewhere in the neighbourhood of \$50,000 a year. It's only those that would have an income greater than that are in the position where they have to sue a third party?

Mr. Schubert: — There's different circumstances when one can sue. Certainly if the injured person is not at fault and has a wage loss that's greater than the maximum amount in any particular year, the no-fault benefits cover the wages of about 90 to . . . I think it's 90 per cent of the Saskatchewan population. So you can sue in those circumstances.

You could sue if there were medical expenses in excess of the no-fault benefit that's there now. If our customer was travelling outside of Saskatchewan in a jurisdiction where tort is allowed, they could sue under those circumstances for economic losses and, if allowed for, non-pecuniary payments, suffering losses.

Mr. D'Autremont: — How about those in Saskatchewan though? Are those in Saskatchewan that are put into the position where they have to sue, is that limited to those that would have an income in excess of the average industrial wage?

Mr. Schubert: — No, it's not the average industrial wage. The maximum insurable earnings — this is for 2007 — are \$65,834 compared to the industrial average wage of 35,684. So if you're a high-wage earner earning \$80,000 a year, you could sue for the difference between those.

Mr. D'Autremont: — So you could sue for the difference between which numbers? The 65,000 and the 80 or the 35,000 and the 80?

Mr. Schubert: — 65 and the 80.

Mr. D'Autremont: — Okay. But what if you're above 35,000 and less than 65,000? Then you're not eligible to sue?

Mr. Schubert: — You would receive compensation for your actual wage loss of course, indexed to benefit, indexed to inflation for the rest of the person's life.

Mr. D'Autremont: — Minus 10 per cent.

Mr. Schubert: — Minus . . . Right, because you . . . 90 per cent. Unless you have a package policy in which case the package policy will top up the 90 per cent, cover that 10 per cent that isn't covered by the licence plate insurance.

Mr. D'Autremont: — So would this be all package policies or just SGI package policies?

Mr. Schubert: — I can't speak for the other insurers, but for sure SGI CANADA's.

Mr. D'Autremont: — So SGI CANADA considers the money then that would be received . . . or SGI considers the money received from an SGI CANADA package policy to be

additional monies available for income replacement. Would SGI deduct that from the benefits receivable from SGI no-fault or is that on top of?

Mr. Schubert: — On top of. It's not paid through the Auto Fund. It's paid through SGI CANADA. And when the customer buys their SGI CANADA package policy, there's a premium associated with that. The premiums for that and the claims for that extra 10 per cent are not reflected in the Auto Fund's financial statements; they're included in SGI CANADA's financial statements.

Mr. D'Autremont: — SGI under the no-fault plan does not consider that to be income?

Hon. Mr. Hagel: — You're talking about the premium that you'd have to . . .

Mr. D'Autremont: — No, no. If there is a payment coming to an injured person because they have an SGI CANADA package policy, they have suffered an automobile injury, they are eligible to receive income replacement from SGI. If another source is paying them income revenue based on salary, does SGI consider that to be income in which case it would be deducted from the SGI payment, or is this exempt from additional income?

Mr. Schubert: — It isn't considered by the Auto Fund as part of income.

Mr. D'Autremont: — What if it was being paid by another insurance company? Would that be considered to be income?

Mr. Schubert: — No. The Auto Fund is the primary payer, so it pays the benefits which the customer pay the premium for.

Mr. D'Autremont: — So any income from another insurance company related to that accident would not be considered income under any circumstances?

Mr. Schubert: — Not if it's from another insurance company. When we calculate the 90 per cent payment of salary, it's 90 per cent of net income. And net income is the gross salary less deductions for CPP [Canada Pension Plan] and tax and EI [employment insurance] and so on to arrive at a net figure. And then the Auto Fund pays 90 per cent. If there's a package policy, the other 10 per cent comes from the package policy.

Mr. D'Autremont: — But I'm thinking of if you had another insurance company — let's say you had insurance through work that would pay you loss of income because of an injury. You're injured in an automobile accident. You're collecting, then, income replacement from SGI, and yet you had a separate policy that you had purchased yourself. Let's say you're self-employed. That would be loss of income. Is that considered to be income by SGI, or is that exempt by SGI?

Mr. Schubert: — It's exempt.

Mr. D'Autremont: — Okay. Very interesting. Thank you. So only those that have incomes that are greater than the \$65,000 can sue a third party. Are there any other circumstances in which SGI clients are forced to sue a third party?

Mr. Schubert: — There could be other circumstances. For example, if medical costs exceed the no-fault benefits, the customer could sue in those circumstances. If they're involved in a crash out of province . . .

Mr. D'Autremont: — I'm thinking in province.

Mr. Schubert: — Well in province, no. Or drunk drivers, there's certain circumstances where they can sue if there are drunk drivers involved. There's certain cases where if there's a vehicle manufacturer making a defective vehicle, then they can sue in those circumstances.

Mr. D'Autremont: — So the determination that the person's injuries benefits would exceed the limit of SGI, which is now \$5 million, that in all likelihood would be considerable years down the road before they would be able to determine that would be the case. Is there a time limit on such third party suits?

Mr. Schubert: — The limitation period is two years. So you'd need to start the action before two years is up.

Mr. D'Autremont: — Legal actions don't necessarily move that fast. But how would you then determine that you're going to exceed the limit, the \$5 million limit of personal injury within the first two years of the accident?

Mr. Cameron: — There is, just as there was in the tort world, there was a calculation done depending on the person's age and the type of injury, and the argument made about future care would cost this much, future medical costs this much, and projected out over, just counted back and comes up with a fairly large number in most cases, especially with catastrophic injuries. And just like in the tort world, that number was agreed on or set. And that's really what you're doing when you're arguing that your liability claim is, you're claiming for the benefits that you are going to run out of at 5 million. And it's a projection of what that will be.

Mr. D'Autremont: — So you would have to have, I would suspect, fairly catastrophic injuries to project over a 20- or 30-year lifespan to fully utilize that \$5 million. Are those calculations made for every client when they become a client of SGI under no-fault personal injury?

Mr. Cameron: — No, not made by SGI. Usually made by the injured person's lawyer who is looking at suing this third party, because you're talking about a tort action then over and above the no-fault benefits.

Mr. D'Autremont: — If the client though has full expectation that SGI's \$5 million is going to cover them, why would they even be considering hiring a lawyer to sue? They would believe that they are protected already.

Mr. Cameron: — They may. If you're catastrophically injured, and depending again on your age, who would know what that medical cost will be 30 years from now? You know it's very hard to predict and it could be a very large number depending on the type of injury.

Mr. D'Autremont: — Let's say they, this victim sues the third

party. Who receives the money?

Mr. Cameron: — The victim.

Mr. D'Autremont: — What's SGI's role in this then? Is the money they received, is the victim expected to utilize those funds initially to cover their costs or does SGI continue to pay and those funds are then utilized to cover the costs of the . . . in excess of SGI? You know, I guess the question is, who pays first?

Mr. Cameron: — There's two instances here. There's one if you're suing for the amount of medical or future care costs or economic loss past the 5 million. Then the individual would get that money. If we're talking about cases where we change from the \$500,000 limit to the \$5 million limit, there's a provision in there that the liability money that's available in there in those cases has to be used for the future care and is calculated and deducted off the 5 million. So we pay out the 500,000. Then let's say you had an award of 2 million. The 2 million then comes off the 5 million and is used up for that future care and economic, and once it's used up then you get to the balance. The remaining balance in this case would be — if my math is right — 3 million. Well not quite, I guess.

Mr. D'Autremont: — Okay. I was thinking in the case of the 5 million where a person . . . I wasn't thinking of the 500,000. Is the money for . . . Let's say the injury occurs today, so you're not touching the 500,000 case. In a suit against a third party, is it added on at the end of the 5 million or is it utilized starting the day the suit is settled and then SGI comes in after that money is utilized?

Mr. Cameron: — No, it's the customer's money. The 5 million we pay out first. Whatever happens to that award, whatever it may be, because it says 5 million is between the customer and their family.

Mr. D'Autremont: — So if they expire before the full SGI \$5 million is utilized, that's part of their family estate?

Mr. Cameron: — That's correct.

Mr. D'Autremont: — Okay. In the case of the 500,000 that you mentioned, then it doesn't work that way?

Mr. Cameron: — No, it doesn't.

Mr. D'Autremont: — In the case of either one — the 5 million or the 500,000 — the client obviously has to hire a lawyer. Who pays that cost?

Mr. Cameron: — SGI doesn't pay that cost. The client pays the cost either in fees per hour or on a contingency basis with their lawyer. Because you're suing, you're suing a third party for an unknown amount of money so there is going to be a cost.

Mr. D'Autremont: — If there is a cost . . . Okay, in the case of the 500,000, there is a cost for the lawyer. They receive a settlement of whatever the case may be and then SGI says you have to utilize those funds for care and . . . care and consideration. But let's say the lawyer has taken some chunk of that obviously for his fees. What does SGI do with that? Do

they still have to . . . the client have to somehow find that difference in the money before the 5 million would then kick in? Or I don't understand.

Let's say they paid the lawyer . . . let's say they collected 200,000. They paid the lawyer a hundred, so they netted \$100,000 which SGI then deducts . . . or I shouldn't say deducts. Well it does deduct it actually. But they've collected 200, so SGI is going to deduct 200,000. What happens to the necessary payments for that \$100,000 that the lawyer got?

Mr. Cameron: — The way I understand it . . . And this is a good legal question. The way I understand it, it would be . . . the full amount is the amount we deduct because we don't know and it's not our business to know whether . . . what the client and the lawyer, what their arrangement was on the fee.

Mr. D'Autremont: — Just a little bit more on this. That's right, you don't know what arrangements the clients may have made. But is the client . . . Are the clients forced to proceed with a lawsuit in this case?

Mr. Cameron: — Of all the cases that I'm aware of — and there is not that many fortunately — there has been legal action started, but I don't know of any court awards. They're usually settled on the base of saying this is what the cost is and two parties agreeing to what that future cost is and agreeing.

Mr. D'Autremont: — That's the future cost of care?

Mr. Cameron: — Right, or economic.

Mr. D'Autremont: — Or economic loss. It could be either.

Mr. Cameron: — Yes, yes. Like I say, I'm not aware of one of those that have went to court yet where they . . . there was a ruling on that.

Mr. D'Autremont: — Okay. I understand the minister has other appointments, so . . .

The Chair: — Yes, I was going to say we're 15 minutes past the hour here and I've been trying to allow some leeway here with time, but it looks like you've got a fair distance to go yet in terms of where you want to head. So I'm going to thank the minister, Minister Hagel, for appearing before the committee this evening and his officials as well, and answering all the questions that have been posed to them.

And we will recess for five minutes before the next minister and his committee appear before us. Minister Hagel, did you have something you wanted to add?

Hon. Mr. Hagel: — Yes, Madam Chair, just before departing I want to thank the hon. member for the questions. They've been specific but I think informative, and the people who are watching probably learned a little bit tonight about insurance. I want to thank the officials for their response and as General Patton once said, we shall return.

The Chair: — Thank you, Mr. Hagel. Mr. D'Autremont.

Mr. D'Autremont: — Thank you. I think that was actually

General Marshall, but I'd like to thank the minister and his officials for coming in. I'll look forward to next time.

The Chair: — Thank you very much. We stand at recess for five minutes.

[The committee recessed for a period of time.]

Saskatchewan Power Corporation

The Chair: — Welcome back, everyone, to this session of Crown and Central Agencies. Before us this evening we have the Saskatchewan Power Corporation and Minister John Nilson, the minister responsible. The members have already been introduced, so I'll invite you to introduce your officials at this time.

Hon. Mr. Nilson: — Yes, thank you very much. I have with me on my right, Pat Youzwa, who's the president and CEO [chief executive officer] for SaskPower; and to her right is Rick Patrick, who's the executive advisor of sustainable development. Then to my left is Bill Jones, who's the vice-president and the chief financial officer of SaskPower; and directly behind me is Mike Marsh, who is the vice-president of transmission and distribution.

The Chair: — Thank you, Minister Nilson. With us this evening we also have representation from the Provincial Auditor's office, so I'll ask Judy Ferguson to introduce the officials you have with you this evening as well.

Ms. Ferguson: — Thank you, Madam Chair. I've got with me actually Leslie Wendel, principal from our office; and behind me is Bob Watt from Deloitte Touche, who's also on this engagement.

The Chair: — Thank you very much. Did you have any opening remarks that you wanted to make, Mr. Minister?

Hon. Mr. Nilson: — Well we're just happy to answer any questions around this annual report and all of the related items.

The Chair: — And I would now like to ask Ms. Judy Ferguson if you'd like to make some comments on the Provincial Auditor's report for chapter 12, 2006 report volume 3.

Ms. Ferguson: — Thank you. Thank you very much. Madam Chair, members, officials, I'm pleased actually to present chapter 12 of our 2006 volume 3 report. It actually starts on page 311 of that report.

Over a four-year period a former SaskPower employee made unauthorized purchases, ineligible expense claims, and unauthorized cellular phone charges. The employee may have misused the signatures of other staff.

Fraud, by its nature, involves one or more persons deceiving others. Even organizations with effective boards and strong management and control systems cannot prevent or detect all fraudulent acts. However agencies can take steps to reduce their risk of fraud.

In this report we report on conditions that allowed losses

totalling nearly 190,000 to occur at SaskPower and remain undetected over a four-year period. We found this loss of public money was primarily due to poor supervision of and ineffective direction to staff and lack of segregation of incompatible functions.

While SaskPower had set up sound processes, these processes were not effective because management did not follow them. Management didn't properly review the expenses — the employee's expense claims, procurement card purchases — prior to approving them for payment. Certain costs and variance reports of the employee's work unit were not reviewed independent of the employee.

The employee had varied work experience and SaskPower had viewed this as an opportunity to gain efficiencies. The employee assumed responsibilities quite different than those assigned to others in similar positions. The employee had authority to buy goods and services, approve invoices for payments, physically receive goods, carry out periodic counts of computer equipment, review and approve the works units financial reports.

Given SaskPower's size, with annual expenses of nearly 1.4 billion, the assignment of these duties, along with a lack of independent review at the work unit level, allowed the employee to conceal the misuse of public money. To reduce the risk of future losses of public money, we make two recommendations for this committee's consideration.

First SaskPower needs to better educate its staff so they're better able to carry out their duties as assigned, and effectively supervise staff. On page 316 of the report we make our first recommendation.

We recommend that Saskatchewan Power Corporation educate its staff on the following:

the importance of the controls necessary to safeguard public resources to increase [staff's] . . . understanding of the purpose of these processes

the importance of signing officers' role to verify the receipt of goods or services and invoices (including procurement purchases and employee expense claims) against supporting documents prior to granting their approval

And third:

the warning signs that may indicate fraud and error and of the employees' duty to bring that information forward.

Our second recommendation is that SaskPower must assess how duties assigned to staff contribute to sound control and consider the implication of changes in assigned duties on the risk of fraud and error.

On page 318 you'll find the second recommendation.

We recommend [SaskPower] . . . require work units, when substantially changing an employee's duties, to assess and

document for management's approval changes in assigned duties that increase the risk of fraud and error, and the procedures [that] they will use to compensate [this].

This concludes our presentation and we'd be pleased to respond to questions. Thank you.

The Chair: — Thank you, Ms. Ferguson. Any questions arising? Ms. Harpauer.

Ms. Harpauer: — Thank you to the Provincial Auditor's office and all the work that you do, and welcome to the officials from SaskPower this evening.

The concern that we have with what was raised by the auditor's office was the fact that this took place over four years undetected, is definitely a concern. And although, as the Provincial Auditor pointed out, in the big picture of SaskPower's annual revenues and expenses it's not a large amount, but for one individual it is quite a large amount. Initially when SaskPower gave a media release, which was on April 11, 2006, they said that they had found irregularities by one employee, a manager, involving probably less than \$100,000 and they had found it internally. However that wasn't the case.

So where did they . . . was it an internal investigation? Or was it the subsequent legal investigation that the additional \$90,000 was discovered?

Ms. Youzwa: — We first became aware of this internally and our initial . . . the news release reflected our initial estimate as to what the losses were. But it was only after we completed our own internal and thorough investigation that we concluded that the amount, the losses were in fact greater. What we provided you initially with was an estimate. At the end, we ended up revising the amount when we had completed our full investigation internally and knew the extent of the losses were. And that's when we provided the larger number.

Ms. Harpauer: — Initially the manager was suspended with pay while the internal investigation was initiated and ongoing. When was the manager actually suspended and when was he subsequently terminated?

Ms. Youzwa: — He was suspended when the allegations were first brought forward, and when we had completed our internal investigation he was terminated.

Ms. Harpauer: — So what time span are we looking at that he would have been suspended with pay? Like I'm thinking it was in April that you first made the announcement. I believe it was stated somewhere that on March 29 was when it was first detected. So when did he actually get suspended?

The Chair: — Ms. Ferguson, would you like to make a comment on that?

Ms. Ferguson: — Sure. Actually as indicated on page 313 of our report, the employee was actually suspended with cause on April 24, 2006.

Ms. Harpauer: — That would have been about a month from

the time period that he was suspended to the time period that his position was terminated. Do we know, to date, if there have been charges brought against this particular individual?

Ms. Youzwa: — We provided the findings of our investigation to the RCMP [Royal Canadian Mounted Police]. I'm not aware of whether or not any charges have been laid.

Ms. Harpauer: — So we don't know. Is there any attempt to recover the money from the individual? I realize that you were insured and therefore you didn't realize a loss due to the funds that he had defrauded, but was there attempts to try and recover it from him at all?

Mr. Jones: — Chair, Ms. Harpauer, thank you for the question. In general yes, there were certain materials and goods that were recovered by our internal audit review and internal audit staff. Those goods were handed over to the insurer and so that the insurer takes charge of those and will try and recoup whatever funds they can.

Ms. Harpauer: — Does your corporation, in this particular case, would you follow up to see if charges were ever laid? Or once you've terminated him, that would be the end of your interest in this particular employee?

Mr. Jones: — Chair, Ms. Harpauer, thank you again. Yes we do follow up. I have been advised by our legal department that the status of this incident is that it's under police investigation. We are of course co-operating fully but we are not aware of any charges that have been laid in this case. And that, my information is as of late last week.

Ms. Harpauer: — Okay. Again I'd say that, you know, four years undetected is a bit of a concern because that's a fair time period. And as a result it's probably why he was able to acquire \$190,000, which is a significant amount for one individual.

Now in the Provincial Auditor's report it states that part of the problem was that he was — and I'm looking for this; you probably know exactly where it is from the office — but he was in an office where there wasn't a large number of staff and therefore he had a number of roles. And I'm saying he because I don't know it's a he. But this particular employee had a number of roles, and so therefore he was receiving goods and he was approving purchases and then he was reviewing what he had done and approving his own actions. Have we corrected that, where you would have offices or locations where that indeed would be a doubling up of rules where you are accessing funds or services or goods and also approving your own decisions.

Mr. Jones: — Chair, Ms. Harpauer, thank you again. The answer is yes. But I'd like to make two comments if I may. I think, first, SaskPower does have an extensive system of controls, and what happened in this case was that those controls were not followed. So that the controls are there; it's just the employee didn't follow them.

Secondly, it was management supervision. This particular employee was put into a position where he should not have been able to initiate transactions and receive them and make payments. That was part of it. Not the entire 190,000 wasn't associated with that. There were other irregularities, if I can put

that, associated with expense claims and so forth. But the individual was certainly put into an inappropriate position where there was inappropriate segregation of duties. That has been reinforced with the particular manager in that area.

Secondly, we are embarking upon an education process and program for all of the company, all of the different offices and so forth to reinforce the importance of not only having the controls but living by them.

Ms. Harpauer: — So is there a superior that possibly bears some of the responsibility of what happened in this particular incident where, as you said, SaskPower has the controls in place but they weren't being followed? So this manager's superior is perhaps a little bit negligent on his or her behalf as well in that he or she should have known that this employee was able to show receipt of goods and approve purchases and then basically approve what he or she did?

Mr. Jones: — Chair, Ms. Harpauer, yes, I think, is the short answer to your question, and I can assure you that the individual, the manager involved has been, there have been extensive discussions with him. I have spoken personally, the vice-president of that business unit has spoken personally to him, and I can assure you that that individual understands where he went wrong; and certainly understands the significance of it and takes it very, very seriously. He is a long-time employee of SaskPower and he takes this very, very seriously.

Ms. Harpauer: — To any of your knowledge has there been any more incidents within SaskPower since this fairly significant one of embezzlement or fraud or . . . of funds?

Mr. Jones: — Chair, Ms. Harpauer, I believe — and Ms. Ferguson will help me here — but I believe that there have been none that have been reported to date. We are required to report to this committee any fraudulent activity in excess of \$500, I believe. And I think there have . . . the northern hydro \$190,000 incident is the only issue that we have reported to the committee to date.

Ms. Harpauer: — Thank you for those answers. That's really appreciated, and I think that completes my questions on the Provincial Auditor's report. I don't know whether the Chair would like to vote them off now or at the end?

The Chair: — I think that if we want . . . well maybe we should vote this section off and then we can move on to the 2005 annual reports and vote them off at that time as well.

All right. We would like to note that the committee reports progress with respect to the Provincial Auditor's recommendations — no. 1 on page 316 and no. 2 on page 318 of the Provincial Auditor's Saskatchewan 2006 report volume 3. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Those opposed? All in favour. Thank you very much. Carried.

That concludes this section then. We'll move on to the consideration of the 2005 SaskPower Corporation annual

reports and related documents. Are there any opening remarks? No. No. Okay. Any questions? Ms. Harpauer.

Ms. Harpauer: — Thank you. And having gone through a number of areas on January 10, 2007, I have a number of small, rather clean-up questions to pursue. So my questioning will be all over the map throughout different areas within the corporation.

We'll start with the clean coal plant that was announced some time ago. And if the minister could give us an update as to what's happening there. There was an announcement of the plant. There was an announcement of partnership with a couple of companies, with Babcock & Wilcox Canada and Air Liquide. And there was an announcement of the location. So where are we now with our clean coal plant?

Hon. Mr. Nilson: — The clean coal plant project is still undergoing the preliminary work around evaluation of the viability of the project. And so the different announcements that have been made relate to the partners that SaskPower has involved with them in developing the overall plan. The goal is to have some decision as it relates to the overall needs for SaskPower's power requirements in the middle of this year. But I think as it relates to the clean coal plant specifically, things are proceeding the way they should be with lots of careful engineering work being done and looking at all of the different options.

Ms. Harpauer: — So with that in mind, if it's progressing as it should and as it's planned, what's the anticipated date to actually begin construction, or is that too far into the future to predict?

Hon. Mr. Nilson: — We first have to make the decision that we're going to do it. So that is quite a difficult question to answer. But it is a project that is very large, and we're having to look at all of the aspects of the engineering of it as well as how we get the various pieces put together. And as we all know, there are challenges around costs as we move forward, given the heated construction cost climate in Western Canada which catches this one as well. So all of these things have to be very carefully looked at.

Ms. Harpauer: — So do we know how much has been spent to date by SaskPower just in the technology, in the research of this particular technology?

Ms. Youzwa: — Just to add to the minister's response. The announcements which we made were announcements that we would do what's called the front-end engineering design work for a clean coal plant. And that would allow us to determine whether the clean coal was a technically and economically feasible option for us. And we would evaluate clean coal against other supply options that are available to SaskPower. So that's what the announcement was about. It wasn't a commitment to the clean coal plant, it was a commitment to the engineering work.

We estimated that that engineering work would cost us in the order of \$20 million and we expect that when that work is completed later this year that it will be done on budget.

Ms. Harpauer: — So we . . . I'm sorry. Approximately \$20 million will be spent by the end of this year, meaning 2007.

Ms. Youzwa: — That's right. Most of it would have been spent last year, but there is still work being done and it should be completed sort of mid-2007. But the total project, we'd estimated to be \$20 million and it will come in around that number as we had estimated.

Ms. Harpauer: — SaskPower did a presentation at — if I remember correctly — at Hotel Saskatchewan to announce the partnership agreement that they had. Now this partnership agreement was to help with the technology, with developing the technology for this whole concept. Is SaskPower paying these companies then to develop this technology or is it going to be a shared technology to, at the end of the development, that could be marketed by either-or?

Mr. Patrick: — The arrangement with the various technology providers is that in some cases we pay them for the engineering of performing. In other cases they're doing it basically at their cost. In other cases we're getting engineering from them at less than market prices, if you like, because they appreciate the opportunity to work on a project like this.

At the end of day the individual partners own the intellectual property rights to those components that they would manufacture as a result of whatever they come up with by way of a design. And SaskPower owns the intellectual property rights for the packaging of the project as a whole. So for instance, Babcock and Wilcox would own any new technology around their boiler designs that they develop, because they're in the boiler business and that's what they sell. It's not part of our business, but SaskPower owns the integration of a new kind of boiler in with the rest of the plant to produce essentially this clean coal concept. So they're sort of like links in a chain where individual technology operators own pieces of the plant and we sort of own the whole thing.

Ms. Harpauer: — Initially when asked the projections of the cost of the clean coal plant — and I understand it's very preliminary, because we're a ways away from actually having a plant up and running — the additional estimate was 1.5 billion. Are we still at that figure considering the escalating labour and material costs, or would the estimate be considerably higher now?

Mr. Patrick: — The minister was quite correct when he said we're in essentially an overheated labour and materials market. The point that the engineering study is at right now in fact is to try and finally nail down the price of the project and that's exactly what they're working on as we speak. I think it's fair to say that there are certainly upward pressures on both labour and material, but we have not actually received a formal final price from the working team. They will be submitting that later on in May for consideration for the project decision, whatever the recommendation is for the future that will be put together in June. So we're probably perhaps a month away from that.

Ms. Harpauer: — Tentatively the desire of this plant, should it go ahead, would be that it would be a 300-megawatt plant. I'm assuming that that number is chosen because we're going to need that capacity. I know our demand for capacity is

increasing. What's plan B? If we need to bring 300 megawatts on stream as additional capacity, and we decide that the clean coal technology is not going to be economically sound, what do we have for a plan B?

Mr. Patrick: — The coal plant is only one of several options. In no particular order: the clean coal project; the alternate to that is a conventional coal project which would be more familiar to us, but would only be approvable depending on whether or not we thought the emerging greenhouse gas emission regulation for Canada would permit that, and we suspect that is not the case; the polygeneration project which is being developed by another industrial proponent is being worked on by them for submission to us later this month and next; Tri-Nations hydroelectric project at the confluence of the North and South Saskatchewan River is being developed by a First Nations band with some industrial partners; a number of natural gas based options are under consideration; and there is also the opportunity for some importation from Manitoba.

Ms. Harpauer: — And correct me if I'm wrong. Natural gas would be a cleaner plant than coal, but a far more costly one to operate, would it not?

Mr. Patrick: — A conventional natural gas plant, from a greenhouse gas emission point of view, would be less clean than a clean coal plant, but cleaner than a conventional coal plant. And although natural gas fuel is considerably more expensive on a per unit of heating value basis than coal, the hardware component of a natural gas plant is considerably less expensive. And so when you have a sort of less expensive technology coupled with a more expensive fuel, the cost of electricity that results from natural gas may not necessarily be more expensive than that coming from a coal plant.

Ms. Harpauer: — And I'm sure that you do these projections. What anticipation do you have, say, in the next five years, in the next 10 years of the increased capacity we're going to need within the province?

Mr. Patrick: — In approximately five years, about 2012, we will need something in the order of 2 to 300 megawatts. If I can go to an earlier comment you made about why is the clean coal design around 300 megawatts, it's because that's the maximum size of unit that our electrical system can manage. If you build units that are bigger than that and if they trip off-line unexpectedly — and these things do from time to time — it's very disruptive to the stability of the electrical system. So what we like to do with these larger units is make them as big as they can be, but only to a certain point. So 300 megawatts is kind of a ceiling for us.

It's basically an economy of scale thing. You're best to build them as large as possible within certain limits. In about 2012, 2 to 300 megawatts needed. A few years later, about every third year we're anticipating about 300 megawatts worth of need, which is a combination of load growth and the retiring off of the old baseload coal units starting really in about 2013.

Ms. Harpauer: — I would assume also — and you can, you know, correct me if I'm wrong — but I would assume also there would be economy of scale. So that if you're going to go to the expense of a clean coal plant, to build it to the maximum size

that our network would handle would be more economic than building a small one that just barely covers what we need.

Mr. Patrick: — Generally that's a true statement, but it's never quite that simple. I mean there are circumstances under which smaller units can be the right thing to do because an electrical system is a complicated thing. It not only has a requirement for baseload units, the big units that kind of run all the time, but it also has the occasion to need units that have a more variable output that are used to stabilize the transmission system and do things like follow wind, if you like. And there are times when it makes sense to add those kind of units as well. In fact they are a necessity within the system.

So you're going to wind up over time with the need for both large baseload units and smaller, more variable capacity units. And each within their own way, they have their own set of economics that make sense because of the duty they're asked to perform.

Ms. Harpauer: — Okay. Just hypothetically let's say ideally the clean coal technology was ready to go, it was found to be very economically viable, the plant was built but we don't quite need that capacity amount at this point in time so that allows us to export power. And I know SaskPower does at times have excess power that we do export, but there is some limitations and restrictions because transmitting it beyond our borders causes some difficulty. Is there any thoughts or plans to upgrading our network where it crosses over to another province or into the US [United States]? Because my understanding is they don't fit that well.

Mr. Patrick: — I guess the short answer is yes. There's no commitment made specifically to build any new wire, but there is ongoing study about the appropriateness of that. And when you're dealing with the electrical supply business, it's not just about generators. It's also about the wire to move the power around both within the province and extra-provincially. So as we speak there are people who are working on that very question.

Ms. Harpauer: — Looking on the systems map that you have in the 2005 annual report, I'm seeing that there's two lines that cross into Alberta, I believe two that are going into the US, and three, possibly four going into Manitoba.

Mr. Patrick: — Three into Manitoba, one into Alberta and one into the States.

Ms. Harpauer: — What would be the cost of upgrading those? Okay, you said two, one and one. So that's four? What would be the cost of upgrading those connections?

Mr. Patrick: — There's no way that I can give you a specific answer to your question because it depends on whether you're upgrading, or building new, what the nature of the upgrade is. But in very round numbers, a major, brand new transmission line to Manitoba capable of carrying very significant load could easily cost \$1 billion, and upgrades to existing lines could run into the hundreds of millions per line.

Ms. Harpauer: — With Manitoba would we not buy more than export?

Mr. Patrick: — No, not necessarily. The sales back and forth to the adjacent provinces are largely what they call opportunity-based. A few years ago when Manitoba happened to be short of water — they had a drought a few years ago — they bought quite a bit of power from us which was unusual. And conversely we only buy from other people when that's less expensive than producing it ourselves.

So it depends a lot on what people have to offer, what their local circumstance is, and what our circumstance is. If we for instance have a high hydro year, we'll probably have an excess of relatively cheap generation of our own and be trying to sell it. On the other hand if it's a dry year and we're otherwise forced to burn gas which is relatively more expensive, we may be trying to purchase it, if in fact it's available. But the way the Western provinces work, if we're dry, so is everybody else. So it's not as if usually we've got a drought and somebody else has got a flood. It doesn't usually work that way.

Ms. Harpauer: — No not usually.

Mr. D'Autremont: — It does in the province.

Ms. Harpauer: — Yes, in the province we do have those extremes, that's true. I'm going to touch a little bit because now the federal government has . . . And I think every time that we get together I ask for the updates on the greenhouse gas emission targets, and I know the federal government has made a recent announcement. Do we know what that's going to mean for SaskPower quite yet, or is the details still being hashed through?

Mr. Patrick: — Well I can give you what I know about it. I attended a federal ministers' briefing that was held in Calgary last week, and they presented this document which is the principles, if you like, that underpin the regulations. It's the same thing that's on the Environment Canada website.

The ministers spoke in general terms about their objectives. As I think has been widely announced in the media and elsewhere, there's a rate of intensity reduction over time that they've talked about wanting to achieve. When we pressed them for detail about how the rules would be operationalized, there really wasn't much coming back by way of answer.

There was in Ottawa today a technical briefing by Environment Canada which was attended by representatives of various energy sectors, including electricity. We didn't hear yet tonight what the outcome of that was. I expect to hear tomorrow. We're hoping that they will have at the officials level some more detail, but based on the, if you like, the generality of this, we can make some crude assumptions about the effect on SaskPower and the province. But really, the devil is in the detail, and we don't have much detail yet.

Ms. Harpauer: — Have you set targets on your own anyways?

Mr. Patrick: — The answer is yes, but it's probably less of a target than the consequence of a fairly aggressive approach being taken by the corporation to integrate greener, lesser-emitting technologies, and to systematically begin retiring off the old coal units in the next decade. When you simply measure the rate of emission reduction which comes

about by doing that business, if you like, you actually get fairly dramatic decreases in our emissions quite quickly. The question we have right now is, even though it's a fairly dramatic change in a relatively short period of time, it's not as rapid as the federal targets would require us to go to.

Ms. Harpauer: — So our fear is our targets may not be high enough at this point in time?

Mr. Patrick: — They are not as aggressive as the federal plan, but, quite frankly speaking, they are based on our ability to literally roll the old fleet over as quickly as we can. There's an issue not so . . . well economic certainly enters in to it, but there's a doability component. We've actually built a replacement plan, if you like, that I think stretches our ability almost to the limit to do the work as fast as we're anticipating doing it.

Ms. Harpauer: — What percentage of our power generation right now is deemed green power?

Mr. Patrick: — Well it depends on what the definition is because there actually is no absolute definition of what green power is. But if you include our hydroelectric, which is at least renewable — no technology is without environmental footprint; the issue becomes whether that environmental footprint is deemed more or less desirable — but if you include all those things in our fleet that are renewable, if you like, or low-impact, and added up the sort of megawatts of capacity, it's about a third of our system.

Ms. Harpauer: — Okay. Wind is 5 per cent, I believe. It's around 5 per cent right now. Wind is at . . .

Mr. Patrick: — Yes.

Ms. Harpauer: — Wind is at 5 per cent. The hydro would be, where would it be at?

Mr. Patrick: — About 29 per cent by capacity.

Ms. Harpauer: — . . . significant amount of our renewable.

Mr. Patrick: — We have some other through our environmentally preferred power program, where we have some heat recovery projects on gas compression stations and whatnot. Those are very low-impact environmentally.

Ms. Harpauer: — Our greenhouse gas emissions have increased significantly, though, in the last decade. Why?

Mr. Patrick: — Essentially it's load. The new electrical generation that's been added really since SaskPower completed its last coal-fired plant in 1992 has all been either natural gas or some kind of a renewable. So on that basis it's been relatively low-intensity carbon emission technologies like high-performance natural gas or wind, if you like. But those things were required because the provincial load goes up and we must serve it. And the load has increased primarily due to industrial and commercial activity so our carbon emissions have gone up because basically the economy is growing.

Ms. Harpauer: — Right. Mr. D'Autremont has some

questions, then I'll come back to you.

The Chair: — Mr. D'Autremont.

Mr. D'Autremont: — Okay. Thank you very much, Mr. Minister and officials.

It's been a while since this issue was approached but I was the other day thinking about this and so it's an old story. It goes back to Channel Lake. I know that the initial losses there were \$5 million in the contract but there was gas arbitrage that was still in place. And the last I recollect asking about this, some of those contracts were still outstanding. And so my question at the time was, what was the total net losses there? And I believe some of those contracts were still outstanding. So I am wondering if all the contracts are now completed and there'll be a finalization of those losses.

Mr. Jones: — Chair, Mr. D'Autremont, thank you for the question. This goes back some time so I'll do my best. And I think there's two parts to your question.

One was the arbitrage contract you talk about. Those have all expired or have been terminated for quite some time. But secondly then there was a management contract with a firm called Direct Energy Marketing Ltd., I believe. That contract was terminated — I'm going by memory — in 2001 or 2002 or perhaps even 2000. I'm going back to then. That's when we made a business decision that we would buy our way out of that contract. And I can't recall what the amount was but I believe it was in the 1 or \$2 million or . . . But I'd have to check that but we can confirm that for you if you'd like.

Mr. D'Autremont: — Yes, if you would, please. And what was the net return or losses on the gas arbitrage contracts that were in place?

Mr. Jones: — Chair, Mr. D'Autremont, I don't have that for you. I think that would have gone back to when Channel Lake, that issue . . . That's back in the '90s well before my time. And I don't think any of the contracts would have carried over much beyond 1998, '99, 2000 so I'm sorry. We can go back and try and check that for you, but . . .

Mr. D'Autremont: — If you would please. It's always stuck in my mind that I never got a final number on that. And I was always curious as to what the end results were because I know I had asked the question in the past and some of the contracts were still outstanding and so there was no final number. And so I've always been curious as to what that final number might actually have been. So if you could look that up please, I'd certainly appreciate that.

Mr. Jones: — Chair, Mr. D'Autremont, I mean, thank you. And I apologize — it may take me a week, a couple weeks or something just because those are files that weren't mine, if I can put it that way. And we'll try and find them.

Mr. D'Autremont: — Yes. Thank you very much. My colleague was asking questions about the power generation and one of the things that is associated with the power generation is — especially at Boundary and at Coronach and Shand — is water usages. How much water does SaskPower utilize in those

locations, and what kind of arrangements does SaskPower have with either the Saskatchewan government for water usage or Watershed Authority or SaskWater, whoever they may be dealing with in usage of that water? What kind of royalties do they pay to the province for the use of the water?

Hon. Mr. Nilson: — I'll try to start answering that. Basically I don't think there's royalties for water, but there's fees that are paid for getting the water to the various facilities. And the figures — I don't know if we have the exact amounts — but they are calculations that are made each year for the use of the water. And that money goes to the Watershed Authority.

Mr. Patrick: — Minister, if I may. Mr. D'Autremont, at the Shand power station — and this is going back some time and digging into the recessed memory — the plant uses, I think, gets its water primarily from the Rafferty dam reservoir and we're licensed to get it from there by the Watershed Authority. And we pay for the amount of water we use based on the amount of water we evaporate, essentially. And I believe Shand uses something like about 3,400 decametres cubed a year. Boundary dam has its own reservoir, but we also pay evaporation fee to the province for that.

And in our hydroelectric stations where we don't actually evaporate the water, we actually pay Watershed Authority a fee based on the amount of electrical generation that's produced, which is another way of really measuring the flow rate through the power plants. So there's actually two different mechanisms that are used in power plants — one based on forced evaporation, the other one based on volume through a hydroelectric unit.

Mr. D'Autremont: — Thank you. How about Coronach? Does that utilize water or is that an air-cooled plant?

Mr. Patrick: — Coronach is the same as Boundary dam. It's water-cooled units. If we were ever to build any more units in the Coronach area, they would have to be air-cooled. There isn't sufficient local water for water cooling.

Mr. D'Autremont: — I wonder if you could tell me what kind of dollars we're looking at here for both evaporative use and for flow-through based on electricity generation of the hydro projects.

Mr. Patrick: — I believe the number is about \$10 million a year, but that's an educated guess.

Mr. D'Autremont: — And that would be a combination of both.

Mr. Patrick: — I think so.

Ms. Youzwa: — It's about \$13 million. In '06, at the end of '06, it was 13.7 million, and '05 it was 13.5 million.

Mr. D'Autremont: — So 13 to 14 million is . . . How is that rate adjusted? Does Sask Watershed Authority set a rate on that? Is that negotiated with SaskPower? How is that determination made?

Hon. Mr. Nilson: — I can answer that one as the Minister for

the Saskatchewan Watershed Authority. They basically will look at the expenses involved for all of the dams that they're there to maintain, and I think there's been a very gradual increase each year. But they do it based on the kind of costs that they see are involved in taking care of all of the various dams that they have to maintain across the province, including Gardiner dam and Rafferty dam and all of these places.

Mr. D'Autremont: — So SaskWater bases their fee rate on the total dam structures within the province that Sask Watershed Authority operates, and then charges that back to SaskPower. Is that what you're saying?

Hon. Mr. Nilson: — No, there are other users of water as well in the province. And there's a standard fee based on the measurement — I think it was decametres we heard. And so there's a standard fee. And then basically whatever SaskPower pays is based on the measurements that Mr. Patrick indicated, whether it's evaporation or the flow through the system. So in a year where there's a lot more hydro power — in other words, there's a lot more flow through the turbines at the various dams — well then there's a slightly higher, there's a higher amount paid on that water rental. When it's lower, it's lower.

Mr. D'Autremont: — Okay. Thank you very much.

The Chair: — Ms. Harpauer.

Ms. Harpauer: — Thank you. I'm going to visit a program that was initially announced in 2003 but phase 2 was in 2005, and that is the environmentally preferred power program that SaskPower had. Looking at your news release, December 21 2005, you state that:

In September 2003, SaskPower issued its first Expression of Interest for innovative and viable environmentally preferred electrical power generation projects between 25 kilowatts and 5 MW in size. Eligible technologies included flare gas, wind, low-impact hydro, biomass, biogas, heat recovery from an existing waste heat source and solar. For the second phase, the size limit for eligible projects was increased to 25 MW, largely due to feedback from proponents who were responding . . .

How many submissions were accepted and now SaskPower is partnering or purchasing power from private sources?

Mr. Patrick: — If I remember correctly — and my memory's slipping on this — we have, I believe, four heat recovery projects that are power generation based on utilizing waste heat from gas compression on basically the Alliance Pipeline system. Those are either in service or under construction, totalling about 21 or 22 megawatts.

We have a proposal in from a relatively large wind farm — 24.75 megawatts — near Moosomin which is not under construction. And actually the project proponent is currently, has put the project into abeyance waiting for some clarification of their access to the federal wind incentive program that was in place and then was cancelled by the current government, then reinstated in a different form. So they're working their way through that if you like, that bureaucracy, to see if those monies are going to be available to them.

And then there is one other small wind project of a few megawatts that is proceeding at — I've forgotten the location — just a few megawatts. Those are the ones that are either current — oh, I believe it's called Benchlands — that are either under construction or were approved within the project.

Once we've accepted the project from a proponent, the proponent then has to finish putting their deal together and then build it. The total of the EPP [environmentally preferred power] program was a 45-megawatt solicitation, and we actually agreed to proposals equalling actually slightly in excess of that. We don't have the 45 megawatts online yet. We've got about half of it contracted and under construction.

Ms. Harpauer: — The wind project that you mentioned, can I just get you to restate where it is?

Mr. Patrick: — Moosomin.

Ms. Harpauer: — Moosomin. Okay that's not the SunBridge? No.

Mr. Patrick: — No, no. The SunBridge was not part of this program.

Ms. Harpauer: — So that's a separate entity altogether. I have a submission, a request for proposals for environmentally preferred power projects and there was a number of wind projects, but there was three heat recovery projects that submitted, I guess, applications for consideration: one was at Alameda, one was at Eston, and one was at Loreburn. Are any of those locations where you have an agreement with an operation with heat recovery?

Mr. Patrick: — Yes.

Ms. Harpauer: — Yes. So if that's still available, if someone wanted to submit an idea of environmentally produced energy and wanted to partner with SaskPower or had a project that they wanted to be able to sell into the grid, are you open to looking at those proposals?

Mr. Patrick: — We receive annually probably 200 or more inquiries from independent power producers of one sort or another who have a potential project in mind. And we have a department in our company who receive these proposals and work with those project proponents. Most of the projects never come about, because upon further investigation they prove to be technically or economically unworkable. But we basically have an open door policy for unsolicited IPP [independent power producers] projects. Occasionally a good one comes along and we will accept it.

Generally our position is that if we have room in our electrical system for the production, and if the price is right, we can do business.

Ms. Harpauer: — I believe in Alberta there is some partnering with feedlots. And I don't know the technology of harnessing the energy from a feedlot, but I don't believe we have any of that in Saskatchewan. However we do have feedlots that are interested and talking about it as being part of their operations of producing energy within their operation. So you may be

getting proposals from that happening.

In particular, I know Pound-Maker, being our largest feedlot at this point and an integrated facility, is looking at other ways of making it more economical between the ethanol plant, the feedlot, and perhaps other areas of producing energy. And like I said, I don't understand the technology of producing energy from a feedlot.

We visited . . . and I can't remember when, there was mention of a moratorium on any further increase of sun, wind power. Do you have any projections of when that ends, when you may consider increasing wind power, or is there a decision not to increase wind power, or where is that at?

Mr. Patrick: — Moratorium is probably — and I'm the one who used that word — so it's probably too strong a word. What we're doing is we're at a point where the wind that is currently operating our system is starting to create some operating problems for us, because the variability of the wind has to be managed to smooth it out, if you like, and our system's ability to effectively smooth the wind is really at its limit. We can't sort of do any more, if you like, additional equipment.

We have a group internally that is currently working on analyzing the problem and coming up with a series of recommendations as to how it can be done. It's not that you can't do it, it's really the question is how and at what cost. And when we get to the bottom of the how and at what cost, then we'll be in a position to decide how much more wind can come into the grid. So it's not as if we like it or don't like it. It's just that we have an operating problem now with the wind. And most electric systems that have large wind installations are running into much the same problems.

Ms. Harpauer: — So this is because wind is not reliable, and we all know that. Is that part of the problem, so that you always have to have backup capacity with wind, you cannot 100 per cent count on wind?

Mr. Patrick: — That's right.

Ms. Harpauer: — Okay. Going back to the questions that I was asking on environmental obligations and targets that we're going to have to meet, is there indication . . . And again you had mentioned that perhaps the targets won't even be doable because our system is going to be extremely costly to renew and there's a number of components that will have to be renewed. Will there be an option, to your knowledge, of buying credits to, in essence, offset the targets that we have to meet until we can get that?

Mr. Patrick: — Yes. The federal plan that was offered up the other day specifically includes a number of economic instruments that can be used to offset whatever your deficiencies are — credits, offsets, and the opportunity to participate in so-called clean development projects abroad that meet certain environmental criteria.

Ms. Harpauer: — Are we going to be able to afford them?

Mr. Patrick: — When you say can we afford them, it could very well boil down to we may not have much choice but to

afford them because the . . . Initially the federal government has offered up a so-called technology fund which is another mechanism by which a person can use an economic means to offset your physical non-compliance. The principle there is that if we put \$15 per tonne of non-compliance, a tonne of carbon dioxide non-compliance, into a fund, that fund would be made available within the sector and within the province where the money was collected.

So for instance, if SaskPower has to pay a penalty for non-compliance, one of the mechanisms we could use would be to put money into a technology fund. And the principle is that the technology fund then at some future date would allow its money to be re-released back into the sector, in the same province from which it was collected, as long as the monies were put towards projects which had a better environmental footprint, if you like.

So it's possible that we could pay into this fund. There is only a certain amount of tonnage allowed and there's a fee structure, an increasing dollars per tonne fee structure over time. The program as a whole I believe terminates in 2018, so it's a fairly limited window. So that's one mechanism.

Other mechanisms around purchase of credits and offsets, right now there isn't actually a working credit system available to Canadian utilities, but the federal ministers promised that there would be one coming shortly, managed within the private sector under federal guidelines and rules and principles. For what it's worth, credits in Europe, where there is a working system right now, are trading at I believe something like about \$30 Canadian per tonne. Beyond that I believe this morning Minister Baird announced that if you didn't comply by either physically remediating your emission problem or buying suitable credits and offsets, that you would be subject to a \$200 per tonne federal penalty. So at the end of the day paying, you know, \$30 or \$20 or \$15 would be presumably less painful than paying the federal government \$200.

Ms. Harpauer: — Wouldn't you agree though that it's counterproductive, because so then we're taking the money that we need to renew our fleet, or our infrastructure, just to pay our way out of this?

Mr. Patrick: — Yes.

Ms. Harpauer: — Where we could definitely use the money to correct the problem because of the capital costs. I mean the capital cost is astronomical of what it's going to cost us.

Mr. Patrick: — We were pleased that the federal government chose to include a technology fund, the principle, as I said earlier, which is that you pay your penalty into it but you can get your money back out when you agree to build something that's useful to solve the problem. That's a good thing. It's almost like a holding account. Unfortunately, the way it's described in these preliminary documents, it's a very limited scope, would not generate a lot of funds, and would barely scratch the surface of a major new power plant.

The reality in our industry is that the difference in timing between the federal requirement to proceed immediately . . . They've said starting in 2007. Right now they're expecting a 6

per cent reduction in intensity, increasing to 12 per cent next year, increasing to 18 per cent by the end of '09. We have no physical ability to meet that objective. We cannot do anything to our units. Even if you had unlimited resources, you just couldn't build stuff fast enough to really do anything. So there will be a period of non-compliance until we can actually get rid of the old plants that cause the problem and replace them with something that is better. And that's, given the construction schedule around clean coal, or polygeneration, or any major facility, hydroelectric, five years at the soonest.

Ms. Harpauer: — Considering right now SaskPower is holding its debt/equity ratio, you know, fairly comparative with the industry, but there are concerns — at least I have concerns — that that can't be held as we do have these capital costs that we're going to have to face, are you in negotiations yet, or do you anticipate being in negotiations with the officials at CIC [Crown Investments Corporation of Saskatchewan] to see if there's going to be some help there?

I know, for example, they gave \$7 million to SaskEnergy for a pipeline project to La Ronge. It's considered a policy decision. And I would think for SaskPower, environmental initiatives would be a policy decision by the government of the day. So is that something that's considered? Are there, you know, initial discussions yet? Is that not even something considered at this point in time?

Hon. Mr. Nilson: — Well I'll answer that one. I think that what has to happen is you look at all of the options around how these costs will be dealt with, and that includes looking at the overall energy supply and what the net cost is to the system.

Now the key point is we want to keep the power on for all of the things that we need to do, so the steps will be taken that way. But right now we have a proposal that's being worked on around clean coal, we have some very energetic work and good work being done around a polygeneration project, which also has some options. We're examining some of the ones that you raised around getting power in from the outside and what the costs would be to increase the ability to bring in power from Manitoba or other places. All of those things do cost a lot of money, and there is a recognition of that in looking at the long-term financial needs for SaskPower.

And so then you look at, well what are some of the different options? And some of them would include the kind of thing you talked about, which is a policy type grant. Others may include borrowing within the corporation, which then deals with some of the debt/equity ratio issues. Others include looking at what the dividend payments are, things like that. So there is a whole number of options.

And I think the fortunate thing for all of us as owners of SaskPower, if I can put it that way, is that we have a good debt/equity ratio and that we have the capacity to do some of these things that we will need to do for the long term. And the important thing is that we do it carefully and with all the proper advice, and my sense is that's the kind of discussion that's happening right now.

Ms. Harpauer: — Thank you to the minister. And considering the hour, I want to thank the minister and the officials for being

here tonight. I want to thank the officials from the Provincial Auditor's office. I appreciate it. It's not fun at nights. The questions that I'll have in the future, quite frankly, are going to be along this line.

So I would like to move:

That the committee conclude its review of the 2005 Saskatchewan Power Corporation annual report, financial statements, and related documents.

The Chair: — The motion before the committee is that the committee conclude its review of the 2005 Saskatchewan Power Corporation annual report, financial statements, and related documents. All those agreed?

Some Hon. Members: — Agreed.

The Chair: — Thank you. Carried.

That concludes our evening for Crown and Central Agencies this evening and I'd like to thank Minister John Nilson and his officials for appearing before the committee this evening and answering all the questions that were posed to you. Thank you very much.

And I'd also like to thank the officials from the Provincial Auditor's office for your presence here this evening and answering any questions that have been posed to you as well.

So thank you very much. I will entertain a motion to adjourn at this point.

Hon. Mr. Addley: — I so move.

The Chair: — Minister Addley. Thank you very much. All those agreed?

Some Hon. Members: — Agreed.

The Chair: — Thank you. Carried. Good evening, everyone.

[The committee adjourned at 21:29.]